

IRS News Release

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IRS Releases Draft Schedules M-3 for 2006

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WASHINGTON - The Internal Revenue Service today released updated drafts of Schedules M-3 for the 2006 tax year and a new Form 8916 that will be filed by certain insurance-related corporations to reconcile taxable income reported on their Schedules M-3 with taxable income reported on their tax returns.

The draft Schedules M-3, dated 4/4/06, are for Forms 1120, 1120-L, 1120-PC, 1120S and 1065. The drafts incorporate suggestions and recommendations offered in meetings with stakeholders since last December when the first drafts of the 2006 forms were released. Draft instructions for the forms are expected to be issued in early May.

“The tax accounting disclosure provided by Schedule M-3 enables IRS to more readily distinguish returns with higher compliance risk from those with lower compliance risk,” said Deborah M. Nolan, IRS Large and Mid-Size Business Division Commissioner. “The ability to determine more quickly which returns require examination will lead to reduced examination cycle time and increased currency. Ultimately that translates to reduced taxpayer burden and improved tax compliance.”

The new Form 8916, “Reconciliation of Schedule M-3 Taxable Income with Tax Return Taxable Income for Mixed Groups”, reflects various insurance industry stakeholder suggestions and comments. Form 8916 and changes in Part II of the Schedule M-3 for Forms 1120, 1120-L and 1120-PC provide a means for consolidating and reconciling taxable income for corporations that include both an insurance company and a non-insurance company, or two different types of insurance companies, such as life insurance and property and casualty insurance.

The draft Schedule M-3 for Form 1065 includes a new line in Part I to report net income of other includible entities, and new lines in Part III to report state, local and foreign taxes.

Another change reflected in the draft Schedules M-3 for Forms 1120S and 1065 include separate reporting of oil and gas and other depletion. Also, Form 1065 filers will be asked to provide additional information in the checkboxes at the top of Schedule M-3 that partnerships use to indicate the reasons they are required to file the Schedule M-3.

Schedule M-3 is filed by corporations and partnerships that have \$10 million or more in assets, and certain other partnerships. Filers of Forms 1120-PC, 1120-L, 1120S and 1065 will begin filing Schedule M-3 with their 2006 tax returns. Form 1120 corporate filers started filing Schedule M-3 with their 2004 returns.

The new draft Schedules M-3 and Form 8916 can be found on IRS.gov. The drafts are located on the "corporations" page, which can be accessed from the Web site section that provides information for businesses. The Web site also offers interested taxpayers a subscription to the Schedule M-3 email news service so they can automatically receive future information about Schedule M-3.

IRS is seeking comments regarding the draft Schedules M-3 and Form 8916. Comments should be submitted by June 1, 2006 to:

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